

Service Date: May 19, 1993

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER of the Application)	UTILITY DIVISION
of GREAT FALLS GAS COMPANY, for)	DOCKET NO. 92.10.57
Authority to Increase Rates and)	FINAL ORDER NO. 5665b
Charges for Natural Gas Service.)	

**Final Order For
Docket Nos. 92.8.37 & 92.10.57**

1. On October 6, 1992, Great Falls Gas Company (GFG or Company) filed with the Montana Public Service Commission (Commission) a general rate case application seeking authority to increase rates for natural gas service by \$960,000. Included in the application was a request for an interim increase in natural gas rates of \$768,219. On November 16, 1992, GFG filed an updated request for interim relief in the amount of \$860,000.
2. The Montana Consumer Counsel (MCC) intervened in this Docket on November 4, 1992.
3. On February 1, 1993, the Commission issued Interim Order No. 5665a which granted GFG an interim increase in base rates of \$540,000 which was applied to all customer classes. In addition, the interim order granted GFG authority to decrease rates by \$540,000 to reflect the gas tracking period from February 1, 1993, to January 31, 1994. The interim gas tracking decrease was applied to all customer classes with the exception of Malmstrom Air Force Base and Montana Refining Company.

4. On March 2, 1993, the Federal Executive Agencies (FEA) Late Filed a Petition to Intervene in this Docket. On March 8, 1993, at a regularly scheduled work session, the Commission granted the Late Filed Petition to Intervene of FEA. The Commission limited the participation of FEA. FEA was allowed the opportunity to attend the stipulation meeting held March 22, 1993, and appeared at the public hearing in Great Falls on April 20, 1993. Due to FEA's very untimely Petition to Intervene, the Commission did not allow FEA to submit data requests, discovery or prefiled testimony.

5. On March 1, 1993, the Commission received a stipulation between the Company and MCC that resolved all revenue requirement issues in this Docket. In the stipulation GFG and MCC agreed that an increase in base revenues of \$540,000 was appropriate. Included in the stipulation was an overall cost of capital of 10.57 percent which was calculated as follows:

	<u>Capital Structure</u>	<u>Cost</u>	<u>Weighted Cost</u>
Debt	55%	9.82%	5.40%
Equity	45%	11.50%	<u>5.17%</u>
Overall Cost of Capital		10.57%	

6. GFG is required to file gas tracker applications by March 31st for the spring tracker and September 30 for the fall tracker, pursuant to Order No. 5539c, Docket No. 90.3.20. As of February 1, 1993, approximately \$200,000 remained in the deferred gas cost account. GFG estimated that its rates would need to be further reduced by an additional \$340,000 over the 12 month time period beginning February 1, 1993, and ending January 31, 1994. That tracking period provided a complete offset to the stipulated increase in Finding of Fact No. 5 above.

7. GFG and MCC in the stipulation recommended that this period be used in lieu of the period specified by the Commission in Order No. 5539c. In terms of its overall effect the stipulation will not result in a change in total revenues for GFG.

8. On March 5, 1993, the Commission issued a Notice of Stipulation Meeting. On March 22, 1993, pursuant to that Notice, a stipulation meeting was held where GFG and MCC each presented their reasons for entering into the stipulation.

9. On March 23, 1993, the Commission issued a Notice of Public Hearing. That Notice indicated that a public hearing in this Docket would be held at the Public Library in Great Falls, April 20, 1993, commencing at 9:00 a.m.

10. On April 20, 1993, the Commission held a public hearing in this Docket in Great Falls at the Public Library. During the hearing a witness for GFG and a witness for MCC explained the reasoning behind the stipulation filed with the Commission.

Commission Decision

11. The Commission wishes to express its thanks to the parties who worked together to achieve a solid cooperative result in this Docket. The agreement between GFG and MCC on the cost of capital which was part of the original filing in this Docket was a precursor to the cooperation which has marked this case from its inception to its conclusion.

12. In evaluating the cost of capital contained in the stipulation, the Commission notes that this Docket is the first case in many years in which the filing utility has agreed to a return on equity below 12 percent. The return on equity of 11.5 percent contained in the

agreement between GFG and MCC was reasonable when it was agreed to, and in the Commission's view remains a reasonable estimate of the cost of equity for GFG in light of today's historically low interest rates. Given that view, the Commission finds that the overall rate of return of 10.57 percent, which includes a cost of equity of 11.5 percent is reasonable in this case.

13. The parties also stipulated that \$201,229 of GFG's overhead expenses should not be included for ratemaking purposes in Montana. With the establishment of the Cody Gas Division and the propane operations in both Wyoming and Arizona, the old allocation methods do not reflect the actual amount of time that management spends on matters relating to other divisions. GFG agreed to include this overhead allocation on its financial records beginning with financial statements for July, 1993, until the next general rate case filing in Montana by GFG. While GFG did not agree that such allocations were appropriate for future periods or for any other purpose than for settling the matters raised in this Docket, the Commission is encouraged by the booking of the new allocation factors. In its next general rate case, GFG will have the burden of proof to show that the method used to allocate overheads is proper for setting rates in Montana.

14. GFG and MCC also agreed in the stipulation that the \$540,000 increase in base rates would be completely offset by a gas tracking decrease of the same amount. Circumstances do not often converge in such a serendipitous manner. Nonetheless the Commission applauds the parties for this adjustment because it results in a complete offset of the base rate increase on a total revenue basis.

15. The Commission finds that the stipulation between GFG and MCC is in the public interest and approves the stipulation as filed.

16. In Interim Order No. 5676, Docket No. 92.8.37, the Commission granted interim approval of two surcharges. The first surcharge of \$.0174 per Mcf reflected the charge needed to recover the current balance in the NIP Loan Program. The second surcharge of \$.0078 per Mcf provided for the one time funding of a \$36,000 low-income furnace efficiency program. Interim Order No. 5676 stated that final consideration of all matters in Docket No. 92.8.37 would take place in Docket No. 92.10.57. The Commission finds that the surcharges approved in Interim Order No. 5676 are appropriate and hereby approved on a final basis. This Order closes Docket No. 92.8.37.

CONCLUSIONS OF LAW

1. Great Falls Gas Company is a public utility furnishing natural gas service to consumers in the State of Montana. As such, it is subject to the supervision, regulation and control of this Commission. . 69-3-102, MCA.

2. The Montana Public Service Commission properly exercises jurisdiction over the Company's Montana operations pursuant to Title 69, Chapter 3, MCA.

3. The Commission has provided adequate public notice and an opportunity to be heard, pursuant to the Montana Administrative Procedure Act. Title 2, Chapter 4, MCA.

4. The revenue requirement and rate levels approved in this Order are just, reasonable and nondiscriminatory.

ORDER

THEREFORE, THE MONTANA PUBLIC SERVICE COMMISSION ORDERS

THAT:

1. The revenue requirement stipulation executed by GFG and MCC and filed on March 1, 1993, is approved. Rates set in Interim Order No. 5665a are hereby made final.
2. This Order is also the final order in Docket No. 92.8.37, making final rates set in Interim Order No. 5676.
3. GFG is ordered to file with the Commission compliance tariffs within twenty (20) days from the service date of this Order, which incorporate the provisions of this Order. Rates in the compliance tariffs shall remain unchanged, except to reflect the issuance of this Order.
4. GFG is ordered to file the requested information set forth in Finding of Fact No. 10 in Interim Order No. 5676.

DONE IN OPEN SESSION at Helena, Montana, this 18th day of May, 1993, by a 5 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

BOB ANDERSON, Chairman

BOB ROWE, Vice Chairman

DAVE FISHER, Commissioner

NANCY McCAFFREE, Commissioner

DANNY OBERG, Commissioner

ATTEST:

Kathlene M. Anderson
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.